

China's Interest and Activity in Africa's Construction and Infrastructure Sectors

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Executive Summary

The People's Republic of China has become an important and influential player in Africa and is increasingly a source of political and financial support for many African governments, particularly in countries with economies that are resource endowed. A number of incentives are driving the commercial engagement of China with Africa. Principal among these is China's increasing need for energy sources and raw materials to fuel its rapidly growing economy.

Another motivation has been the development of markets for Chinese goods. Except for the relatively small number of resource rich countries such as Angola and Zambia, the majority of African economies have mounting trade deficits with China. The Chinese have sought to offset these with more favourable terms of trade for African products and the provision of aid in the form of infrastructural development.

China's involvement in Africa's construction and infrastructure sectors has proved most effective in building relations with African governments — increasing influence and expanding access to natural resources on the continent. Chinese state-owned and private companies are making strategic inroads into the construction and infrastructure sectors of many African economies at the expense of European and South African companies which previously dominated these sectors. Naturally, the traditional actors are alarmed by this phenomenon and there are concerns that China's politically determined business models do little to build local capacity.

The Centre for Chinese Studies conducted a four country research study that evaluated the market entry models of Chinese construction firms in Angola, Sierra Leone, Tanzania and Zambia. Particular attention was paid to the methods of engagement and the impact on the local construction industries. Chinese activity in the four case studies were examined and then compared across five areas: 1) tendering, 2) access to capital, 3) labour, 4) procurement, and 5) quality of workmanship. The business environment in terms of governmental bilateral relations, aid and trade and investment profiles between China and the countries concerned were also taken into consideration.

The success of China's companies, particularly State Owned Enterprises (SOEs), can be attributed to several factors: cost competitiveness in overall bidding price; access to cheap capital through Chinese state-owned banks; access to skilled low cost labour; access to cheap building materials through supply chains from China; and political support from the Chinese government channelled through Chinese Embassies and Economic and Commercial Counsels in the respective African countries.

Chinese companies were found to rarely compete with indigenous construction companies — that usually lack the capacity for large scale construction projects — in the initial stage of engagement.

They were also found to usually employ large numbers of local labour. Despite the potential benefits in terms of skill and technology transfer, the Chinese have shown only limited interest in collaborative ventures with local construction companies due to their low levels of human capital, technological proficiency and problems with the financial and management. Foreign firms were found to be the preferred partners for joint-ventures and are also attractive candidates for sub-contracts on contracts won by the Chinese.

While political support from the Chinese government has undoubtedly played a critical role in softening the entry of Chinese companies, it was found that the Chinese face the same challenges as other construction players: corruption, lack of infrastructure, poor quality of local labour, communication, and political instability.

Despite widespread perceptions that the quality of work by the Chinese is inferior, when building codes and regulations are in place and effectively enforced the standard of work done by the Chinese was reported by the majority of stakeholders to be very high. However, where quality controls are not properly enforced, especially in less developed markets such as Sierra Leone standards are often low.

The contribution of Chinese companies to the development and rebuilding of infrastructure in Africa is considerable; however, to maximize these benefits improved monitoring and evaluation mechanisms are required. As China increases its profile in Africa, further dialogue on these issues involving all stakeholders is crucial.